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PRESS RELEASE

PRUDENTIAL FINANCIAL SUBSIDIARY AGREES TO PAY $600,000,000 IN LARGEST RESOLUTION OF MARKET TIMING CASE

Boston, MA... The Justice Department announced that **PRUDENTIAL EQUITY GROUP, LLC, ("PEG")**, a broker-dealer subsidiary of **PRUDENTIAL FINANCIAL, INC. ("PRUDENTIAL")**, has entered an agreement in which **PEG** has admitted to criminal wrongdoing in connection with deceptive market timing trading in mutual fund shares and has agreed to a payment of $600,000,000 in fines, restitution and penalties. This is the largest resolution of a market timing case.

Paul J. McNulty, Deputy Attorney General, U.S. Department of Justice; Michael J. Sullivan, United States Attorney, District of Massachusetts; Peter Zegarac, Inspector in Charge of the U.S. Postal Inspection Service Boston District; David Bergers, District Administrator for the Securities Exchange Commission and William F. Galvin, Secretary of the Commonwealth of Massachusetts announced today that **PRUDENTIAL EQUITY GROUP, LLC, ("PEG")** has agreed to pay $600,000,000 in fines, restitution and penalties in connection with deceptive market timing trading in mutual fund shares dating back to 1999.

The Justice Department has also entered into a separate compliance agreement with **PEG**'s parent company, **PRUDENTIAL**. Under the terms of that compliance agreement, **PRUDENTIAL** will also cooperate with the Justice Department in its ongoing investigation and will maintain policies and procedures relating to the integrity of the compliance functions across its various affiliated entities. The compliance agreement provides that the General Counsel of **PRUDENTIAL** shall make periodic reports to the Prudential Board of Directors Audit Committee as to the appropriateness and effectiveness of the compliance plan. It also requires the General Counsel to provide the reports to the United States Attorney in the District of Massachusetts, along with a certification that the reports include all material information bearing on the effectiveness of the compliance plan.

According to the Statement of Facts, from 1999 through June 2003, a number of brokers at **PEG**'s predecessor entity, **PRUDENTIAL SECURITIES, INC. ("PSI")**, engaged in a scheme to defraud mutual funds and their shareholders by using deceptive practices to place thousands of prohibited market timing trades on behalf of the brokers' clients, which were typically sophisticated hedge funds. The brokers were able to place these trades, thereby generating commissions for themselves and illicit profits for their clients, by manipulating trade information sent over the automated mutual fund trading system **PSI** used to communicate trades to mutual funds. Through the automated system, brokers were able to defeat efforts by the mutual funds to block their abusive market timing trading, by placing their trades in multiple accounts, often with multiple identities, to make it appear that the trades were coming from many different, unrelated brokers representing many different, unrelated clients.

During the relevant period, one group of former **PSI** brokers based in its Boston branch office ("Boston Brokers"), used at least fourteen FA numbers and 183 customer accounts, for only seven clients, to circumvent these blocks and avoid new blocks. The Boston Brokers' use of these devices in connection with market timing allowed group members to continue to place trades in funds that had taken steps to preclude them from further trading. Their scheme created the impression that transactions originated from many brokers and represented many different customers. What appeared to the mutual funds to be thousands of separate transactions submitted by many brokers for many unrelated customers was actually a systematic pattern of market timing by group members on behalf of their hedge fund clients.

In addition to the Boston brokers, at least two dozen other brokers throughout the **PSI** system were involved in deceptive mutual fund market timing. From 2001 through 2003, these brokers generated in excess of $50 million in commissions and in excess of $100 million in profits for their hedge fund clients. Some of these brokers, including the head of the Boston Brokers, were among the highest producing brokers at **PSI**.

"This is a great victory for the investing public," said Deputy Attorney General McNulty. "The deceptive trading practices at Prudential were compromising the integrity of many mutual funds. Investors were dealt a bad hand by corporate con-men who stacked the deck against them. This resolution sends a strong message to predatory traders who dupe the system to reap millions in illegal profits."

United States Attorney Michael J. Sullivan said, "It is critically important for the public to have confidence in the integrity of our financial systems. The conduct at issue here was particularly troublesome, because it undermined the integrity and utility of the automated, standardized mutual fund trading system, a system that was created to bring greater efficiency to the trading of mutual funds."

Inspector in Charge of the U.S. Postal Inspection Service Boston District commented, "The Postal Inspection Service is very proud of its history in protecting the American consumer. This significant settlement further illustrates our successes and dedication to ensuring the integrity and security of the United States Mails. We wish to recognize the outstanding cooperative efforts of all of our regulatory and law enforcement partners, especially those of the United States Attorney's Office for the District of Massachusetts."

Secretary of the Commonwealth William F. Galvin said, "I am gratified that this matter has reached a resolution, thanks to the work of the U.S. Attorney's Office and the federal agencies in concert with the state Division of Securities. The use of market timing when ordinary investors are told it's not allowed subverts the entire concept of a mutual fund. Despite this achievement, we, state and federal regulators alike, must remain vigilant against abuses that undermine investors' confidence in the financial markets."

According to the Statement of Facts, on multiple occasions, the brokers' deceptive conduct came to the attention of senior management at **PSI**, who failed to stop the activity. Mutual fund companies repeatedly sent letters and emails to **PSI** imposing blocks on further market timing activity by the brokers. Some of these communications notified **PSI** that the brokers were engaged in deceptive practices to continue placing market timing trades.

Despite the communications by the mutual fund companies, **PSI**: (a) continued to issue brokers additional accounts for the clients engaged in timing; (b) continued to issue additional FA numbers to brokers that were used with the market timing clients; (c) failed to utilize controls that could limit the brokers' ability to engage in the deceptive practices; (d) failed to comply with mutual fund companies' requests that the market timing conduct of the brokers cease; (e) misled some mutual fund companies by representing to them that PSI could and would stop the brokers from trading in their funds, and then failing to do so; (f) failed to implement appropriate policies designed to prevent the brokers from engaging in the deceptive practices; and

(g) failed to impose any discipline upon any of the brokers even under circumstances where senior PSI managers were actually aware of the brokers' deceptive conduct.

$270,000,000 of the settlement will be paid into the SEC Fair Fund, a fund set up to compensate victims of the fraudulent conduct. The $300,000,000 in criminal penalty will be paid directly to the United States Treasury and $25 million is being paid to the USPIS Consumer Fraud Fund to assist in future fraud detection and deterrence efforts. There is also a $5 million civil penalty being paid to the Secretary of the Commonwealth of Massachusetts.

In addition to the payment, **PEG** has also agreed to abide by a variety of terms and conditions for a period of five years, including cooperation with the Justice Department in its ongoing investigation of abusive and fraudulent trading in mutual fund shares.

To date, three individuals associated with the fraudulent trading at **PEG**'s Boston branch office, Martin Druffner, Skifter Ajro and Robert Shannon, have pled guilty to wire and securities fraud charges. Druffner and Ajro are awaiting sentencing. Shannon was sentenced in July 2006.

This is an ongoing investigation, and the Justice Department and the United States Attorney's Office in the District of Massachusetts are continuing their investigation of other individuals and entities for fraudulent trading in mutual funds.

The case was investigated by the United States Attorney's Office in the District of

Massachusetts, United Sates Postal Inspection Service, Securities and Exchange Commission and the Secretary of the Commonwealth of Massachusetts' Securities Division. It is being prosecuted by Assistant United States Attorney Jack Pirozzolo in Sullivan's Economic Crimes Unit.

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